# GOVERNMENT OF INDIA
# FINANCE
# LOK SABHA

UNSTARRED QUESTION NO:5738
ANSWERED ON:07.04.2017
Monetary Policy Committee
Puttaraju Shri C.S.

**Will the Minister of FINANCE be pleased to state:**

(a) whether the Government has set up Monetary Policy Committee under the Reserve Bank of India (RBI); and

(b) if so, the details thereof and the composition of the Committee along with its terms and reference?

## Answer

Minister of State in the Ministry of Finance
SHRI ARJUN RAM MEGHWAL

(a) and (b): In terms of Section 45ZB (1) of the Reserve Bank of India Act, 1934 (RBI Act) the Central Government may, by notification in the Official Gazette, constitute a committee to be called the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI). According to Section 42B(2) of RBI Act, MPC shall consist of the following members, namely,
(a) the Governor of RBIâ€"Chairperson, ex officio;
(b) Deputy Governor of RBI, in charge of Monetary Policyâ€"Member, ex officio;
(c) one officer of RBI nominated by the Central Boardâ€"Member, ex officio; and
(d) three persons to be appointed by the Central Governmentâ€"Members.

Accordingly, the Government of India vide its Notification of September 29, 2016 constituted MPC, consisting of the following members:-
(a) Governor of RBIâ€"Chairperson, ex officio;
(b) Deputy Governor of RBI, in charge of Monetary Policyâ€"Member, ex officio;
(c) One officer of RBI to be nominated by the Central Boardâ€"Member, ex officio;
(d) Shri Chetan Ghate, Professor, Indian Statistical Institute â€"Member;
(e) Professor Pami Dua, Director, Delhi School of Economicsâ€"Member; and
(f) Dr. Ravindra H. Dholakia, Professor, Indian Institute of Management, Ahmedabadâ€" Member.

The Members of the MPC referred to in clauses (d), (e) and (f) above shall hold office for a period of four years or until further orders, whichever is earlier.
In terms of Section 45ZB (3) of the RBI Act, the Committee determines the Policy Rate required to achieve the inflation target.

In terms of powers conferred by Section 45ZA of the RBI Act, the Central Government, in consultation with RBI, notified the inflation target for the period beginning from August 5, 2016 and ending on March 31, 2021, as under:

Inflation Target : Four per cent.
Upper tolerance level : Six per cent.
Lower tolerance level : Two per cent.

If the average inflation is more than the upper tolerance level of 4% + 2%, that is, 6%, or less than the lower tolerance level of 4% − 2%, that is, 2%, for any three consecutive quarters, it would mean a failure to achieve the inflation target.

In terms of Section 45ZN of the RBI Act, where RBI fails to meet the inflation target, it shall set out in a report to the Central Government−−
(a) the reasons for failure to achieve the inflation target;
(b) remedial actions proposed to be taken by RBI; and
(c) an estimate of the time-period within which the inflation target shall be achieved pursuant to timely implementation of proposed remedial actions.